REPORT OF THE AUDIT OF THE OWSLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002



EDWARD B. HATCHETT, JR. AUDITOR OF PUBLIC ACCOUNTS www.kyauditor.net

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE OWSLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

The Auditor of Public Accounts has completed the Owsley County Fiscal Court audit for the fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Fund balances increased by \$35,468 from the beginning of the year, resulting in a cash surplus of \$136,542 as of June 30, 2002.

Debt Obligations:

Capital lease principal agreements including a contingent liability totaled \$80,100 as of June 30, 2002. Future principal and interest payments of \$90,945 are needed to meet these obligations.

Report Comments:

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Adopt a Written Investment Policy
- The County Treasurer Should Present The County Settlement To The Fiscal Court Within Thirty Days As Required By KRS 68.020
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records
- Lacks Adequate Segregation Of Duties

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS



EDWARD B. HATCHETT, JR. AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable Jimmie Herald, Former Owsley County Judge/Executive
Honorable Cale Turner, Owsley County Judge/Executive
Members of the Owsley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Owsley County, Kentucky, as of June 30, 2002, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Owsley County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Owsley County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2002, of Owsley County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



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In accordance with <u>Government Auditing Standards</u>, we have also issued our report dated May 21, 2003, on our consideration of Owsley County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with <u>Government Auditing Standards</u> and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Owsley County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Adopt a Written Investment Policy
- The County Treasurer Should Present The County Settlement To The Fiscal Court Within Thirty Days As Required By KRS 68.020
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
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- Lacks Adequate Segregation Of Duties

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

Audit fieldwork completed - May 21, 2003

OWSLEY COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Jimmie Herald County Judge/Executive

Bill Hall Magistrate
Jesse Bishop, Jr. Magistrate
Bobby Smith Magistrate

Other Elected Officials:

Wade Rasner County Attorney

Hubert Shouse Jailer

Sid Gabbard County Clerk

Mike Mays Circuit Court Clerk

Paul Short Sheriff

Monica Barrett Property Valuation Administrator

Eddie Isaacs Coroner

Appointed Personnel:

Marvin McIntosh County Treasurer
Wanda Holbrook Finance Officer

STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS

OWSLEY COUNTY STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

						Totals orandum Only) deporting
	<u>G</u>	lovernmenta	ıl Func	l Types		Entity
	Special General Revenue		-			
Assets and Other Resources						
Assets						
Cash and Cash Equivalents	\$	140,392	\$	5,198	\$	145,590
Loan Receivable (Note 4B)	·	23,815	·	-,	,	23,815
Total Assets	\$	164,207	\$	5,198	\$	169,405
Other Resources						
Amounts to Be Provided In Future Years for:						
Capital Leases (Note 5 A and B)	\$	55,000	\$		\$	55,000
Total Other Resources	\$	55,000	\$		\$	55,000
Total Assets and Other Resources	\$	219,207	\$	5,198	\$	224,405

OWSLEY COUNTY STATEMENT OF ASSETS, LIABILITIES, AND EQUITY ARISING FROM CASH TRANSACTIONS June 30, 2002 (Continued)

	General		Special Revenue			
Liabilities and Equity						
<u>Liabilities</u>						
Capital Leases (Note 5 A and B)	\$	55,000	\$		\$	55,000
Payroll Revolving Account		90				90
EFTPS Account		8,955				8,955
Withholding for Clerk and						
Sheriff Account		1				1
Total Liabilities	\$	64,046	\$	0	\$	64,046
<u>Equity</u>						
Fund Balances:						
Reserved	\$		\$	5,198	\$	5,198
Unreserved		155,161				155,161
Total Equity	\$	155,161	\$	5,198	\$	160,359
m . 1711199 179 17	Φ.	210.207	Φ.	7.10 0	Φ.	224 405
Total Liabilities and Equity	\$	219,207	\$	5,198	\$	224,405

STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

OWSLEY COUNTY STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

General Fund Type

		Totals			R	Road and		
	(Me	emorandum	(General	Bridge			
Cash Receipts		Only)		Fund		Fund	Ja	ail Fund
Schedule of Operating Revenue Other Financing Sources:	\$	1,255,002	\$	360,306	\$	702,513	\$	58,308
Transfers In		289,288		166,124		26,940		96,224
Total Cash Receipts	\$	1,544,290	\$	526,430	\$	729,453	\$	154,532
Cash Disbursements								
Comparative Schedule of Final Budget and Budgeted Expenditures Other Financing Uses:	\$	1,204,534	\$	444,766	\$	544,183	\$	150,461
Transfers Out		289,288		44,000		166,124		
Capital Lease - Principal (Note 5)		15,000		8,505				
Total Cash Disbursements	\$	1,508,822	\$	497,271	\$	710,307	\$	150,461
Excess (Deficiency) of Cash Receipts								
Over (Under) Cash Disbursements	\$	35,468	\$	29,159	\$	19,146	\$	4,071
Cash Balance - July 1, 2001	Ψ	101,074	Ψ	34,601	4	10,610	4	3,274
		,		,		,		-,
Cash Balance - June 30, 2002	\$	136,542	\$	63,760	\$	29,756	\$	7,345

OWSLEY COUNTY STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES For The Fiscal Year Ended June 30, 2002 (Continued)

Genera		a :	1.0		TD.			
Fund Ty	pe	Special Revenue Fund Type						
Local Governn Econon Assistar	nent nic		Δ	landa a a				
Assistat Fund		orestry Fund		elopment Fund		ibulance Fund		
	.574 \$	1,640	\$	1,389	\$	25,272		
\$ 105.	.574 \$	1,640	\$	1,389	\$	25,272		
	274 \$	1,866	\$	1,389	\$	15,595 6,495		
\$ 125	,438 \$	1,866	\$	1,389	\$	22,090		
	,864) \$,348	(226) 474	\$		\$	3,182 1,767		
\$ 30.	,484 \$	248	\$		\$	4,949		

OWSLEY COUNTY NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Owsley County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the application of the criteria stated in GASB 14, there are no component units which merit consideration as part of the reporting entity.

Additional - Owsley County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Owsley County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Owsley County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Owsley County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and the Local Government Economic Assistance Fund.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Owsley County Special Revenue Fund Type includes the following county funds: Forestry Fund, Local Government Economic Development Fund, and the Ambulance Fund.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received, except for the recording of long-term receivables and deferred revenue. Expenditures are recognized when paid, except for the recording of long-term obligations and amounts to be provided in future years.

D. Legal Compliance - Budget

The Owsley County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 1. Summary of Significant Accounting Policies (Continued)

F. Joint Venture

A joint venture is a legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility.

The Owsley County Fiscal Court has entered into a joint venture with Wolfe and Lee counties. They have formed the Three Forks Public Properties Corporation, a legally separate organization, in order to sell bonds to build the Three Forks Regional Jail. The Owsley County Fiscal Court does not appoint a voting majority of the 10 board members. Lee County appoints 4 of the 10 members. Wolfe and Owsley counties appoint 3 members each. Each county will be equally liable if the Three Forks Regional Jail doesn't meet the bond payment requirements. Each of the three participants will have joint control and they have an ongoing financial interest and ongoing financial responsibility. Each county has also guaranteed the Three Forks Regional Jail payment for 15 prisoners per county at the rate of \$25 a day even if occupancy is at a lower amount. The Three Forks Public Properties Corporation issued \$6,295,000 of First Mortgage Revenue Bonds for the construction of the regional jail.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 4. Loan Receivable

A. 1997 Ambulance

The Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement states that the Fiscal Court would purchase an ambulance and would finance it on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. The County paid off the obligation on the loan in a previous year and Allen's Ambulance Service reimbursed the remaining amount due the County on January 3, 2002. As of June 30, 2002, both parties had fulfilled their obligations.

B. 2000 Ambulance

On March 2, 2000, the Fiscal Court entered into a second agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement stated that the Fiscal Court would finance the ambulance purchase on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. As of June 30, 2002, Allen's Ambulance Service owed the County \$23,815 in unpaid loan principal payments (See Note 5B for payment schedule).

Note 5. Capital Leases

A. Voting Machines

On March 2, 2000, Owsley County entered into a lease agreement with Kentucky Area Development Districts Financing Trust for voting machines. The principal amount of the lease was \$48,195. The agreement requires semi-annual interest payments in May and November and annual principal payments in May to be paid in full May 20, 2005. The principal balance of the agreement was \$31,185 as of June 30, 2002. Lease payments for the remaining years are:

Fiscal Year Ended

June 30	Interest		Principal		
2003 2004 2005	\$	2,077 1,588 936	\$	8,505 11,340 11,340	
Totals	\$	4,601	<u> </u>	31,185	

B. 2000 Ambulance

On March 2, 2000, the Fiscal Court entered into an agreement with Allen's Ambulance Service for the purchase of an ambulance. The agreement states that the Fiscal Court will finance the ambulance purchase on behalf of Allen's Ambulance Service. The County is responsible for making the required monthly payments. Allen's Ambulance Service is required to reimburse the County for the monthly payments. As of June 30, 2002, the remaining principal balance was \$23,815, all of which is a receivable due the County from Allen's Ambulance Service (See Note 4B above). Lease payments for the remaining years are:

Fiscal Year Ended

June 30	Ir	nterest	P	rincipal
2003 2004 2005	\$	1,586 1,212 714	\$	6,495 8,660 8,660
Totals	\$	3,512	\$	23,815

Note 6. Contingent Liability

On November 4, 1998, the County entered into an agreement with Fifth Third Bank Corporate Trust to purchase an ambulance that is used by Allen's Ambulance Service. Allen's Ambulance Service is making all payments for the ambulance directly to Fifth Third Bank. In the event that Allen's Ambulance Service would fail to make the scheduled payment, the County would be responsible for the liability. As of June 30, 2002, Allen's Ambulance Service is in compliance with all scheduled payments to Fifth Third Bank. As of June 30, 2002, the outstanding principal balance is \$25,100. Lease payments for the remaining years are:

Fiscal Year Ended

June 30	I1	nterest	P	rincipal
2002	Ф	1 201	ф	6 200
2003	\$	1,201	\$	6,300
2004		875		6,700
2005		528		7,100
2006		128		5,000
Totals	\$	2,732	\$	25,100

Note 7. Insurance

For the fiscal year ended June 30, 2002, Owsley County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.



COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE

OWSLEY COUNTY COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Budgeted Funds	Budgeted Operating Revenue		Actual Operating Revenue		 Over (Under) Budget	
General Fund Type						
General Fund Road and Bridge Fund Jail Fund Local Government Economic Assistance Fund	\$	396,026 781,800 50,751 94,900	\$	360,306 702,513 58,308 105,574	\$ (35,720) (79,287) 7,557 10,674	
Special Revenue Fund Type						
Forestry Fund Local Government Economic Development Fund Ambulance Fund		2,040 517,000 60,000		1,640 1,389 25,272	(400) (515,611) (34,728)	
Totals	\$	1,902,517	\$	1,255,002	\$ (647,515)	
Reconciliation						
Total Budgeted Operating Revenue Above Add: Budgeted Prior Year Surplus Less: Other Financing Uses					\$ 1,902,517 88,221 (15,001)	
Total Operating Budget Per Comparative Schedule of Final Budget and Budgeted Expenditures					\$ 1,975,737	





OWSLEY COUNTY SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

GOVERNMENTAL FUND TYPE

Revenue Categories	Totals (Memorandum Only)		n General Fund Type		30110141		Semerar		R	Special evenue nd Type
Taxes	\$	260,447	\$	258,819	\$	1,628				
In Lieu Tax Payments		39,622	Ċ	39,622	·	,				
Licenses and Permits		4,303		4,303						
Intergovernmental Revenues		877,217		865,828		11,389				
Charges for Services		2,388		2,388						
Miscellaneous Revenues		53,490		38,218		15,272				
Interest Earned		17,535		17,523		12				
Total Operating Revenue	\$	1,255,002	\$	1,226,701	\$	28,301				



COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES

OWSLEY COUNTY COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

	GENERAL FUND TYPE						
Expenditure Categories		Final Budget		Budgeted spenditures		Under (Over) Budget	
General Government	\$	370,201	\$	344,658	\$	25,543	
Protection to Persons and Property	·	189,011	·	177,447	·	11,564	
General Health and Sanitation		22,231		22,051		180	
Social Services		3,000		,		3,000	
Roads		415,673		369,366		46,307	
Transportation Facilities and Services		1,500				1,500	
Debt Service		2,565		2,566		(1)	
Capital Projects		99,821		60,652		39,169	
Administration		299,190		208,944		90,246	
Total Operating Budget - All General Fund Types	\$	1,403,192	\$	1,185,684	\$	217,508	
Other Financing Uses:							
Capital Lease Agreement-							
Principal on Lease		8,506		8,505		1_	
TOTAL BUDGET - ALL GENERAL FUND TYPES	\$	1,411,698	\$	1,194,189	\$	217,509	

OWSLEY COUNTY COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES For The Fiscal Year Ended June 30, 2002 (Continued)

	SPECIAL REVENUE FUND					O TYPE	
Expenditure Categories		Final Budget		Budgeted Expenditures		Under (Over) Budget	
General Government Protection to Persons and Property Debt Service	\$	517,000 53,586 1,959	\$	1,389 15,502 1,959	\$	515,611 38,084	
Total Operating Budget - All Special Revenue Fund Types	\$	572,545	\$	18,850	\$	553,695	
Other Financing Uses: Capital Lease Agreement- Principal on Lease		6,495		6,495			
TOTAL BUDGET - SPECIAL REVENUE FUND TYPE	\$	579,040	\$	25,345	\$	553,695	

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR. AUDITOR OF PUBLIC ACCOUNTS

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Members of the Owsley County Fiscal Court

Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Owsley County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated May 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in <u>Government Auditing Standards</u> issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Owsley County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under <u>Government Auditing Standards</u> and which are described in the accompanying comments and recommendations.

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Adopt a Written Investment Policy
- The County Treasurer Should Present The County Settlement To The Fiscal Court Within Thirty Days As Required By KRS 68.020



Report On Compliance And On Internal Control Over Financial Reporting Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards (Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Owsley County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Owsley County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records
- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable conditions referred to above to be material weaknesses.

This report is intended solely for the information and use of management is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,

Edward B. Hatchett, Jr. Auditor of Public Accounts

Audit fieldwork completed - May 21, 2003



OWSLEY COUNTY COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2002

NONCOMPLIANCES

The County Should Earn Interest On Applicable Checking Accounts

The county is not currently earning interest on all of their checking accounts. According to KRS 66.480 (1), the county may invest or reinvest money subject to its control. We recommend that the county comply with this statute by depositing all moneys except restricted federal monies into interest bearing checking accounts.

Former County Judge/Executive Jimmie Herald's Response:

Our bank requires \$500 minimum. We usually don't have up to \$500 in bank.

The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005

The fiscal court did not review the administrative code during the fiscal year as required by statute. KRS 68.005 (2) states that the fiscal court shall review the county administrative code annually during the month of June and may, by a two-thirds majority of the fiscal court, amend the County's administrative code at that time. We recommend compliance with this statute in the future.

Former County Judge/Executive Jimmie Herald's Response:

The Court has started the review as required.

The County Should Adopt a Written Investment Policy

The Fiscal Court does not have a written investment policy. KRS 66.480 (3) states "the county shall adopt a written investment policy to govern the investment of funds . . . " by the entity. We recommend that the Fiscal Court adopt a written investment policy.

Former County Judge/Executive Jimmie Herald's Response:

The Fiscal Court should go ahead and adopt a policy if a windfall were to happen.

The County Treasurer Should Present The County Settlement To The Fiscal Court Within Thirty Days As Required By KRS 68.020

The County Treasurer did not present his settlement to the fiscal court for approval within thirty days, as required by KRS 68.020, which states the County Treasurer shall make a full and complete settlement within thirty (30) days after the close of each year. The County Treasurer's settlement was presented for approval but was not within the time limit as set by statute. We recommend the County Treasurer present his annual settlement to the fiscal court for approval within thirty (30) days in the future.

Former County Judge/Executive Jimmie Herald's Response:

The County Judge should call a special meeting to meet those time guidelines.

OWSLEY COUNTY COMMENTS AND RECOMMENDATIONS For The Fiscal Year Ended June 30, 2002 (Continued)

NONCOMPLIANCES (Continued)

The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government

The purchase order system in place is not sufficient to meet the new Department for Local Government (DLG) requirements for Fiscal Courts. These requirements are stated below and taken from the DLG Handbook *Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual*

- A. Purchases shall not be made without approval by the Judge/Executive (or designee), and/or a Department Head.
- B. Purchase requests shall indicate the proper appropriation account number to which the claim will be posted.
- C. Purchase requests shall not be approved in an amount that exceeds the available line item appropriation unless the necessary and appropriate transfers have been made.
- D. Each Department Head issuing purchase requests shall keep an updated appropriation ledger and/or create a system of communication between the Department Head and the Judge/Executive or designee who is responsible for maintaining an updated, comprehensive appropriation ledger for the county.

We recommend that the Fiscal Court adopt the purchasing procedures set forth by DLG.

Former County Judge/Executive Jimmie Herald's Response:

The Court has started a numbered purchase order system.

The County Should Properly Account For Encumbrances

The Fiscal Court did not prepare a list of encumbrances for the fiscal year ended June 30, 2002. This is a requirement of the Department for Local Government. The Treasurer should prepare a list of any unpaid purchase orders by fund from the purchase order journal at the close of each quarter. The list should include the purchase order number and the amount. We recommend that the Fiscal Court adopt the purchasing procedures set forth by DLG.

Former County Judge/Executive Jimmie Herald's Response:

The numbered purchase orders will help us accomplish this.

OWSLEY COUNTY COMMENTS AND RECOMMENDATIONS For The Fiscal Year Ended June 30, 2002 (Continued)

REPORTABLE CONDITIONS (Continued)

The County Should Maintain Adequate Inventory Records

The County's Inventory records are not adequate. The County maintains inventory records, but they are not in accordance with the guidelines established by the Department for Local Government. The equipment listed did not have model numbers, serial numbers, or the cost or other basis of valuation. The Department for Local Government "State Local Finance Officer Policy Manual" states that "Adequate fixed asset records provide the information necessary to:

- Report the costs or other basis of valuation,
- Determine the accuracy of insurance coverage,
- Maintain control of county property, and
- Long range planning for property replacement"

It further states that the following procedures should be used to achieve the above objectives:

- "Record The fixed asset record must identify the asset, its cost or other basis of valuation, date acquired, fund charged, location and other information
- Inventory An annual inventory of fixed assets must be conducted and compared to the fixed assets records. A master list should be prepared,
- Updating A fixed asset record should be prepared for each acquisition. The total of the
 capital outlay accounts for the year should be compared to the total general fixed asset
 additions. The deletions to general fixed assets (disposal information) should be
 documented.

We recommend that the Fiscal Court adopt the procedures and documents set forth by the DLG Handbook *Instructional Guide for County Budget Preparation & State Local Finance Officer Policy Manual*. Copies of blank forms are provided in the manual for County personnel to use.

Former County Judge/Executive Jimmie Herald's Response:

The Fiscal Court should do a comprehensive inventory and labeling project.

OWSLEY COUNTY COMMENTS AND RECOMMENDATIONS For The Fiscal Year Ended June 30, 2002 (Continued)

REPORTABLE CONDITIONS (Continued)

Lacks Adequate Segregation Of Duties

The Owsley County Fiscal Court has a weakness in their internal controls due to a lack of adequate segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursement of cash, and the posting of cash to the ledgers delegated to separate individuals. We recommend that a qualified office employee independent of check writing and posting duties, match purchase orders to checks and invoices. Also we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the Treasurer and may reduce audit costs in the future. Initialing the purchase orders, and invoices, by this person, and making sure the invoices are marked paid can be shown as evidence of improved segregation of duties.

Former County Judge/Executive Jimmie Herald's Response:

We do the best we can with what resources we have.

PRIOR YEAR FINDINGS

- The County Should Earn Interest On Applicable Checking Accounts
- The Fiscal Court Should Review The Administrative Code Annually As Required By KRS 68.005
- The County Should Implement A Purchase Order System In Accordance With The Requirements Established By The Department For Local Government
- The County Should Properly Account For Encumbrances
- The County Should Maintain Adequate Inventory Records
- Lacks Adequate Segregation Of Duties

CERTIFICATION OF COMPLIANCE -LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

OWSLEY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS OWSLEY COUNTY FISCAL COURT

Fiscal Year Ended June 30, 2002

The Owsley County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

Jimme Herald

rald unty Judge/Executive Former County Judge/Executive

County Treasurer